

**REPORT OF THE AUDIT OF THE
ROCKCASTLE COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
January 1, 2007 Through June 8, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
ROCKCASTLE COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
January 1, 2007 Through June 8, 2007

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for the Rockcastle County Sheriff for the period January 1, 2007 through June 8, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$464,450 for the districts for 2006 taxes, retaining commissions of \$19,050 to operate the Sheriff's office. The Sheriff distributed taxes of \$417,404 to the districts for 2006 Taxes. Taxes of \$31,979 are due to the districts from the Sheriff and refunds of \$4,475 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Did Not Maintain Accurate Receipts And Disbursements Ledgers
- The Sheriff Did Not Pay Interest Earned On A Monthly Basis
- The Sheriff Should Have A Written Agreement To Protect Deposits

Deposits:

The Sheriff's deposits as of February 22, 2007 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$78,230

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Buzz Carloftis, Rockcastle County Judge/Executive

Honorable Michael E. Peters, Rockcastle County Sheriff

Members of the Rockcastle County Fiscal Court

Independent Auditor's Report

We have audited the Rockcastle County Sheriff's Settlement - 2006 Taxes for the period January 1, 2007 through June 8, 2007. This tax settlement is the responsibility of the Rockcastle County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Rockcastle County Sheriff's taxes charged, credited, and paid for the period January 1, 2007 through June 8, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Buzz Carloftis, Rockcastle County Judge/Executive

Honorable Michael E. Peters, Rockcastle County Sheriff

Members of the Rockcastle County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Did Not Maintain Accurate Receipts And Disbursements Ledgers
- The Sheriff Did Not Pay Interest Earned On A Monthly Basis
- The Sheriff Should Have A Written Agreement To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

September 15, 2008

ROCKCASTLE COUNTY
MICHAEL E. PETERS, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
January 1, 2007 Through June 8, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Transferred From Outgoing Sheriff	\$ 42,221	\$ 55,561	\$ 220,822	\$ 73,106
Franchise Taxes	15,875	22,731	83,754	
Additional Billings	59	78	311	100
Unmined Coal	34	44	177	56
Mineral Reserves	160	211	838	269
Penalties	2,684	3,528	14,029	4,644
Gross Chargeable to Sheriff	<u>61,033</u>	<u>82,153</u>	<u>319,931</u>	<u>78,175</u>
<u>Credits</u>				
Exonerations	184	242	966	310
Discounts	83	118	436	10
Delinquents:				
Real Estate	6,961	9,177	36,542	11,723
Tangible Personal Property	311	412	1,507	593
Franchise Taxes	<u>904</u>	<u>1,550</u>	<u>4,813</u>	
Total Credits	<u>8,443</u>	<u>11,499</u>	<u>44,264</u>	<u>12,636</u>
Taxes Collected	52,590	70,654	275,667	65,539
Less: Commissions *	<u>2,235</u>	<u>3,003</u>	<u>11,027</u>	<u>2,785</u>
Taxes Due	50,355	67,651	264,640	62,754
Taxes Paid	46,218	61,678	242,506	67,002
Refunds (Current and Prior Year)	<u>39</u>	<u>42</u>	<u>198</u>	<u>213</u>
Due Districts or (Refund(s) Due Sheriff) as of Completion of Audit	<u>\$ 4,098</u>	<u>\$ 5,931</u>	<u>\$ 21,936</u>	<u>\$ (4,461)</u>

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
MICHAEL E. PETERS, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES
For The Period January 1, 2007 Through June 8, 2007
(Continued)

* Commissions:

4.25% on	\$	188,783
4% on	\$	275,667

** Special Taxing Districts:

Library District	\$	2,144
Health District		1,745
Extension District		2,056
Soil Conservation District		<u>(14)</u>

Due Districts or		
(Refunds Due Sheriff)	\$	<u><u>5,931</u></u>

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT

June 8, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the Sheriff did not have a written agreement with the bank.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
June 8, 2007
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On February 22, 2007, \$78,230 of the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uninsured and Unsecured \$78,230

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 12, 2007 through June 8, 2007.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2006. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was March 26, 2007 through June 8, 2007.

Note 4. Interest Income

The Rockcastle County Sheriff earned \$325 as interest income on 2006 taxes. As of September 15, 2008, the Sheriff owed \$185 in interest to the school district and \$140 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Rockcastle County Sheriff collected \$18,246 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of September 15, 2008, the Sheriff was due \$163 in 10% add-on fees from his fee account.

Note 6. Advertising Costs And Fees

The Rockcastle County Sheriff collected \$980 of advertising costs and \$1,850 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, however, the county was overpaid by \$1,189. The advertising fees were used to operate the Sheriff's office. As of September 15, 2008, the Sheriff is due \$1,189 in advertising costs from the county.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
Honorable Michael E. Peters, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Rockcastle County Sheriff's Settlement - 2006 Taxes for the period January 1, 2007 through June 8, 2007, and have issued our report thereon dated September 15, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rockcastle County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Rockcastle County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rockcastle County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Rockcastle County Sheriff's Settlement - 2006 Taxes for the period January 1, 2007 through June 8, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Did Not Maintain Accurate Receipts And Disbursements Ledgers
- The Sheriff Did Not Pay Interest Earned On A Monthly Basis
- The Sheriff Should Have A Written Agreement To Protect Deposits

The Rockcastle County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Rockcastle County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

September 15, 2008

COMMENTS AND RECOMMENDATIONS

ROCKCASTLE COUNTY
MICHAEL E. PETERS, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period January 1, 2007 Through June 8, 2007

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Rockcastle County Sheriff's office lacks an adequate segregation of duties. During the course of evaluating the office's internal controls, the following deficiencies were noted:

- The Sheriff's bookkeeper collects tax receipts and prepares the daily bank deposits.
- The Sheriff does not issue and sign all checks written from the tax account.
- The Sheriff's bookkeeper prepares and mails disbursements from the tax account.
- The Sheriff cannot provide evidence that he reviews monthly tax reports for accuracy.
- The Sheriff's bookkeeper prepares all financial records of the tax account.
- The Sheriff cannot provide evidence that he reviews accounting records of the tax account for accuracy.

We recommend the following compensating controls be implemented to offset these internal control deficiencies. Documentation of the compensating controls could be a signature or initial on the appropriate records of the procedure performed.

- The Sheriff could recount the daily deposits prepared by the bookkeeper and personally deposit funds in the financial institution.
- The Sheriff could require dual signatures on all tax account checks and personally mail all disbursements.
- The Sheriff could reconcile bank records to the monthly tax reports in order to verify accuracy.
- The Sheriff could periodically review all other accounting records prepared by the bookkeeper for accuracy.

Sheriff's Response: None.

STATE LAWS AND REGULATIONS:

The Sheriff Did Not Maintain An Accurate Receipts And Disbursements Ledgers

The Rockcastle County Sheriff did not record tax collections and distribution payments in receipts and disbursements ledgers. The Uniform System of Accounts as required by the State Local Finance officer prescribes an accurate recording of receipts by source and expenditures by payee. The Sheriff should maintain an accurate receipts and disbursements ledger to be in compliance with the Uniform System of Accounts.

Sheriff's Response: Have added additional personnel to help correct this problem in the future.

ROCKCASTLE COUNTY
MICHAEL E. PETERS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period January 1, 2007 Through June 8, 2007
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Sheriff Did Not Pay Interest Earned On A Monthly Basis

During the course of the audit, we noted that interest earned was not being paid to the school district on a monthly basis. KRS 134.140(3)(b)(d) requires the Sheriff to pay over interest on a monthly basis in the same manner as the monthly distribution of taxes to the individual districts. The Rockcastle County Sheriff should pay interest earned to the school district on a monthly basis in order to be in compliance with this statute.

Sheriff's Response: None.

The Sheriff Should Have A Written Agreement To Protect Deposits

On February 22, 2007, \$78,230 of the Rockcastle County Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Rockcastle County Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Sheriff's Response: This has been corrected.

